

WASHOE COUNTY INVESTMENT COMMITTEE

MINUTES OF MEETING

WEDNESDAY, MAY 3, 2023

3:00 PM

PRESENT: Alexis Hill, Chair (Via Zoom)
Abbe Yacoben, Chief Financial Officer
Justin Taylor, Treasurer
Cathy Hill, Comptroller

STAFF: Michael Large, Legal Counsel, Washoe County District Attorney's Office
Brenda Mathers, Chief Deputy Treasurer, Washoe County Treasurer's Office
Marissa Kuckhoff, Administrative Assistant I, Washoe County Treasurer's Office
Casey McDonald, Office Assistant II, Washoe County Treasurer's Office (Via Zoom)

FHN: Rick Phillips, President & Chief Investment Officer, FHN Financial Main Street Advisors

OTHER: Robert Andrews, Accounting Manager, Washoe County Comptroller's Department (Via Zoom)
Debra Crowley, Senior Financial Analyst, Truckee River Flood Management (via Zoom)
George Robison, Executive Director, Truckee River Flood Management (via Zoom)
Susan Dees, Fiscal Manager, Washoe County Community Services Department (Via Zoom)

The Washoe County Investment Committee met in the Commissioner's Caucus Room of the Washoe County Administration Complex, located at 1001 East Ninth St., Reno, Nevada. Treasurer Justin Taylor called the meeting to order, and Marissa Kuckhoff, Administrative Assistant I, called the roll. It was established that quorum was present, and the Committee conducted the following business.

AGENDA ITEM 2 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."

Treasurer Taylor called for any public comment and there was the following. Robert Beadles stated that the first rule of investing is to make money and asked why the County has unrealized loss and why they are losing money on investments.

AGENDA ITEM 3 – MINUTES [FOR POSSIBLE ACTION]

Agenda Subject: "Possible approval of minutes for the Washoe County Investment Committee's February 1, 2023, meeting. Board members may identify any additions or corrections to the draft minutes as transcribed."

Treasurer Taylor introduced this agenda item, called for any corrections, and there were none. Comptroller Cathy Hill moved to approve the minutes and Chief Financial Officer Abbe Yacoben seconded. The motion passed unanimously.

AGENDA ITEM 4 – RECOMMENDED UPDATE TO WASHOE COUNTY INVESTMENT POLICIES [FOR POSSIBLE ACTION] Agenda Subject: "Discussion and possible update to Washoe County Investment Policies, including but not limited to:

- Add 'Comprehensive' to County's Annual Financial Report.
- Update of language to "prudent person" per NRS 355.140.

- **Add ‘and as NRS allows’ to “The Investment Officers shall take care to maintain a prudent balance of investment types and maturities as the County’s investment strategy dictates”.**
- **Capitalization of Investment Management Plan.**

Treasurer Taylor introduced this agenda item and reviewed the proposed updates to the Washoe County Investment Policy. Chief Financial Officer Yacoben motioned to approve the changes, Comptroller Hill seconded the motion, and it passed unanimously.

AGENDA ITEM 5 – UPDATE AND DISCUSSION REGARDING WASHOE COUNTY’S INVESTMENT PORTFOLIO [NON-ACTION ITEM]

Agenda Subject: “The January-March 2023 quarterly report will be provided, and Committee Members may discuss the report. Presentation by FHN Financial Main Street Advisors on the following: Washoe County’s Investment Portfolio Strategy discussion and Economic Update.”

Treasurer Taylor introduced this agenda item and Rick Phillips with FHN presented the quarterly report.

ECONOMIC AND MARKET UPDATE

Phillips gave an economic snapshot of the market.

Wisdom from The Wizarding World of Harry Potter

Pius to Lord Voldemort: “One hears many things my lord, whether the truth is among them is not clear.”

“Whether the Truth is Among Them is Not Clear”?

- Ben Bernanke: The Federal Reserve is currently not forecasting a recession. (Jan 2008)
- Janet Yellen: I Don’t Believe There Will Be Another Financial Crisis in Our Lifetimes. (Jun 2017)
- Jay Powell: These one-time increases in prices are likely to have only transient effects on inflation. (Mar 2021)
- Alan Greenspan: Our ability to forecast is limited. (Nov 2019)

Phillips explained that during the Great Recession there were 511 banks that went under, totaling \$330 billion in assets. In the last four weeks, there has been the second, third, and fourth largest bankruptcies in US history, totaling over \$500 billion in assets. After hours, Pacific Western Bank, a \$44 billion bank, is down 50% in stock price because they have announced that they may need to sell. Western Alliance, which owns Bank of Nevada, is down 25% after hours, and Metropolitan Bank is down 20%. Phillips commented that while The Federal Reserve (“The Fed”) has said that they think the banking system is resilient, FHN is concerned about it.

Probabilistic Expectations: The Normal Yield Curve

Phillips explained that while no one knows what the future of the market holds, they look at things in past relationships to predict what might happen in the future, and that the yield of different maturities along the US Treasury curve is what drives them. The average Treasury yields from January 1977 through present were graphed and Phillips explained that the longer durations averaged a higher yield, thus the longer the County can invest, the higher the yield.

Probabilistic Expectations: The Inverted Yield Curve

Phillips showed a graph of the Basis Point Spread 10Y-3M with inversions circled and explained that this happens when the 3-Month is yielding higher than the 10-Year. He further explained that these inversions have historically preceded a recession. Gross Domestic Product (GDP) was graphed and showed the correlation

between recession and low GDP. Currently, there is an inversion where the 3-Month is out yielding the 10-Year and Phillips stated that this has caused banking challenges.

A Fed First!

Phillips explained that while The Fed has not forecasted a recession, news outlets like NBC, Forbes, CBS, and CNBC reported that a “mild recession” is expected, and Phillips agreed with this prediction.

Growth And Inflation Have Declined and Are Expected to Continue

A graph with US GDP Year-over-Year and Consumer Price Index (CPI) Year-over-Year from September 2021 through present was shown and Phillips explained that GDP peaked in September 2021 and CPI peaked in June 2022, and has been trending lower. The forecast is for those to continue in a downward trend.

The Fed and The Market are Not in Sync... Who “Wins”?

The history of the Fed Funds rate was shown, and Phillips explained that this correlates with what can be held in the investment pool. The Fed pushed rates down during the Great Recession from 5.25 to zero and kept them there for seven years. Rates gradually started coming back up in 2015. In 2018-2019 they cut rates. Then COVID hit and the rates sky-rocketed up in the fastest percentage increase in history, from .25% to 5.25% in 13 months, an over 2000% increase. Phillips said that this will leave a mark on things, as they are starting to see in the banking sector. Phillips explained that the Futures are predicting rate cuts lower than The Fed Forecasts for December 2023 and December 2024.

The Market Typically Leads the Fed and The Fed Doesn't Stay Put Long

The Fed Funds Effective Rate and the Market Yield on U.S. Treasury Securities at 5-Year Constant Maturity, were shown from 1990 through present, and Phillips explained that since the late 1980s, once the Fed stops hiking, they cut an average of 8 months later. FHN predicts a cut by the end of this year/early next year.

Banks Tightening Lending Standards

Eight times a year, The Fed releases the “Beige Book”. Each of the twelve Federal Reserve Banks gathers information on current economic conditions in its District and this is compiled into the “Beige Book”. Current highlights include Banks tightening lending standards amid uncertainty; two districts saw outlooks deteriorate; consumer spending generally flat to down, and the labor market becoming less tight.

Consumers (Retail Sales) are Flat to Down

The “Beige Book” indicated retail sales are down, and Phillips graphed Retail Sales from 1994 through present to show the correlation between low retail sales and recession. The stimulus money resulted in a massive spike in retail sales, and sales have gone down since.

Labor Market Becoming Less Tight

Phillips stated that while the labor market is lessening, it is still strong.

Even Though Longer Rates Have Dropped... It's So Much Better to Invest

Phillips explained that the portfolio has some longer duration investments obtained when global economic conditions were unstable and negative interest rates were present in Europe and Japan. Lower yielding bonds were acquired when The Fed was discussing negative interest rates in the U.S. Phillips stated that FHN is fine with unrealized loss on the portfolio because that means that new money gets to be invested at higher rates.

What May Happen to Commercial Real Estate

Work from home has had impacts on commercial real estate, as shown in areas like metropolitan San Francisco.

Domestic Air Travel Back to Pre-COVID Levels

Phillips reviewed information showing that TSA checkpoint numbers and travel have returned to Pre-Covid levels.

Stocks (S&P 500) Still Down About 15% from All-Time High of 2022

The S & P 500 Index Value was graphed, and Phillips explained that its sky-rocketed with The Fed's easy-money policies of the last decade plus, then a slash down during Covid of about 34%, and more recently we are down about 15% from the all-time high. Stocks aren't crashing, but there is concern because stocks do not farewell in a recession. The County does not invest in stocks.

Housing Still Facing Headwinds

Information was graphed from 2002 through present depicting the Year-over-Year price of homes, mortgage purchase applications, housing starts, existing home sales, and 30-year mortgage rates. Recently, with mortgage rates so high, it has impacted the housing market.

Reno Area Housing Price Index: Better Than National Index

Phillips reviewed a chart showing Reno housing prices over time and explained that housing prices crashed during the Great Recession and went up drastically during the "work from home" period. It would be a surprise if there was negative growth and Consumers have a lot of equity in their homes.

An Inflation Perspective

The Consumer Price Index, and CPI Less Food and Energy, are down to 5%, and with today's Fed hike, Fed funds is above CPI. Typically, this is when The Fed has stopped hiking rates. The first hike of The Fed was in March 2022, about thirteen months ago, and CPI YOY was at 8%.

Once Employment Increases .5% Above 6 Month Avg, Recessions Follow

Two graphs were shown. The first showed the unemployment rate from 1950 through present, and Phillips explained that when we get to the 3-4% range that we are in now, it is typically the bottom or 'full employment', and when it goes up there is a recession, as shown by the shaded areas on the graph. An economist at The Fed has a rule that once unemployment rises a half a percent above its previous six-month average, you have a recession 100% of the time. The Fed and the Market Projections are predicting that we go from 3.5% to 4.5% later this year. Phillips further explained that unemployment is a lagging indicator.

Probabilistic Expectations

- Fed to Hike May 3 by .25%, 50/50 Chance in June
- Mild to Moderate Recession Late 2023/Early 2024
- Fed to Cut in Early 2024
- Intermediate/Long-Term Bond Yields Decline into Late 2023
- Unemployment to Start Increasing in Late 2023...4 Handle Next Year
- Stocks (S&P 500) to Take Many Months to Get Back to All-Time High
- Inflation (CPI YOY) to See a 2 Handle in Early 2024
- Housing Prices Continue Their Moderate Declines into 2024

The Fed hiked today by .25%, but after listening to Powell, Phillips reported that the market has only priced that in at about a ten percent chance.

Shorter vs. Longer Duration Over the Long Run

A chart showing the yields of the Clark County NV Pool and the California LAIF from 1998 through 2022 was

shown. Phillips explained that there were only four years where the shorter LAIF portfolio outperformed the longer duration CC Pool. Over the long run, the .47%, or 47 basis points per year, over twenty-five years, has produced about \$300 million more investment income for Clark County than California LAIF.

PORTFOLIO METRICS AND INFORMATION

Portfolio Summary

The three main objectives of the portfolio are safety, liquidity, and income. Phillips reviewed charts in the investment report representing the Sector Allocation, Maturity Distribution, Credit Quality, Account Summary, Month-End Portfolio Book Yield, and Top Issuers. Phillips stated that there is a little more liquidity than usual because of some ongoing capital improvement projects and the uncertainty with the federal debt ceiling. Regarding the Credit Quality, Phillips explained that the 'Non-Rated' are federal agencies that do not pay for a rating but are backed by the federal government. Phillips highlighted an unrealized loss that went from about -\$44 million to -\$34 million, and that's because interest rates have started to come down with the banking crisis. The yield graph shows the County's portfolio has gone from .8% to 2.2%, and that is millions of dollars more in interest income. Phillips said that they are fine with unrealized losses because it is almost all a buy and hold portfolio, matching cash flow needs. Looking at the Top Issuers, US Bancorp holds 2.2% of the portfolio, is the fifth largest bank in the country, and has seen their stock prices go down. While FHN thinks they will be fine, this underscores the importance of diversification.

Historical Book Values

The growth of the Book Values was charted from July 2016 through March 2023, and it showed that the portfolio increased from \$457.6 to \$977.1 million.

Historical Book Values Per Fiscal Year

Prior fiscal year information was tracked and compared in a graph showing the cyclical nature of the County's income.

Historical Weighted Average Maturity

The average years to maturity by month from July 2019 through March 2023 were reviewed.

Historical Earning & Book Return Performance

The fiscal year-to-date earnings and the fiscal year-to-date book return were shown by month.

Historical Yield At Cost vs Benchmark

The Investment Management Plan indicates that the portfolio should earn a market rate of return over time.

Comptroller Hill stated that interest rates and bonds are adversely related and asked Phillips if he was less concerned with the bonds and if they would see benefit from any cuts in 2024. Phillips said that he would like to always see a small un-realized loss on the portfolio because that means interest rates are going up a little every day. In 2008-2009, the County would have had large unrealized gains on the portfolio when interest rates dropped, but any reinvestment over the next seven years, killed the investment income. The same thing was seen in 2020. There was massive unrealized gain in the portfolio, but the County didn't sell to hold on to the income.

Treasurer Taylor thanked Phillips for the report and moved to the next agenda item.

AGENDA ITEM 6 – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]

Agenda Subject: “This item is limited to announcements or issues proposed for future agendas and/or workshops.”

Treasurer Taylor called for any committee member’s comments and there were none.

AGENDA ITEM 7 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: “Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee’s agenda.”

Treasurer Taylor called for public comment and there was the following.

Robert Beadles asked the following questions. What is the presenter’s name? Where does the budget show the management fee? Who is in charge of the management decisions on where these investments are going? What are the fees? What is Commissioner Hill’s role in the Committee? He said that the first rule of investing is not to lose money and all he heard in the presentation was things in Japan were so much worse than here and how losing money is okay. He said simple annuities would get the County 3-5% a year and the interest could be used to fund all the liabilities that come up without ever using your nut. He wanted to know about the purchasing power since he sees that the investment advisor is in tons of city across the US and said that even a rooky investor could use that purchasing power to manipulate markets to get unprecedented returns. He says he is not seeing this here and is seeing losses. He gave an email address of robertbeadles@protonmail.com .

Penny Brock referenced the minutes from the February 1, 2023 Investment Committee meeting and asked what happened with the Credit Suisse holdings. Phillips answered that it matured, and the County got all the principal and interest back.

AGENDA ITEM 8 – ADJOURNMENT [NON-ACTION ITEM]

Treasurer Taylor adjourned the meeting.

Attachments to Minutes



Agenda Item 3 -
Minutes of the Febr



Agenda Item 4 -
Investment Policy wi



Agenda Item 5 -
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